

November 28, 2018

Michael Puskaric, MBA, CPA, CMA  
Director, Public Sector Accounting  
Public Sector Accounting Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

**Re: Statement of Concepts – A Revised Conceptual Framework for the Canadian Public Sector**

Dear Sir,

Thank you for the opportunity to comment on the above noted document. MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms, with a significant focus on clients in the public sector. We believe that we are positioned well to provide feedback on this important issue.

We have reviewed the Statement of Concepts and have provided our response to the specific questions noted below.

**Question 1: Does the proposed conceptual framework provide a stronger foundation for creating standards or preparing financial statements that meet the needs of the primary users?**

We agree that the proposed conceptual framework provides a strong foundation for creating future standards. As well, it serves as a foundation of basic concepts to be relied upon for accounting policy decision-making when an issue is not specifically addressed at the standards level. Due to the comprehensiveness of the conceptual framework, the document is quite lengthy. We recommend adding a similar diagram to that presented on page ii of the Statement of Concepts into the proposed conceptual framework to provide users with an effective summary of the content.

**Question 2: In the absence of a standard relevant to a particular accounting question would the proposed conceptual framework better help you to determine an approach?**

The proposed conceptual framework would help to determine an appropriate approach for the accounting of transactions and balances not specifically addressed in an existing standard. We believe that similar conclusions would be derived as those currently arrived at based on the guidance that is existing in Sections PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*.

**Question 3: Do you agree that these characteristics generally apply to all or in part to all public sector entities?**

We agree that these characteristics generally apply to all or in part to all public sector entities.

**Question 4: Do you agree with how each characteristic is described?**

We agree with how each characteristic is described.

**Question 5: Do you agree that the concept of control should be described as proposed at the conceptual level (recognizing that specifics are set out at the standards level)?**

We agree that the conceptual framework should cover the basic definition of control but believe that the detailed definition should be presented at the standards level. The definition of control when applied to an asset can be quite different than when applied to an organization; therefore, application guidance at the standards level is more useful.

In reviewing the proposed concept of control, we noted a contradiction with the current concept of control discussed in PS 1300 *Government Reporting Entity*. The proposed concept of control states, per 5.17(b), "The inherent power, legislative right or other ability to control another organization or other arrangement may currently exist. However, until such powers, rights or abilities are exercised, control of an organization or other arrangement would not be considered to exist for financial statement purposes.". Per PS 1300.09, "A government may choose not to exercise its power; nevertheless, control exists by virtue of the government's ability to do so. Control must exist at the financial statement date, without the need to amend legislation or agreements.". We are concerned that the proposed conceptual framework suggests a change in the definition of control currently described in PS 1300, as opposed to providing additional guidance.

**Question 6: Do you agree that financial statements of a public sector entity provide a measure of the entity's service capacity and changes in it during the accounting period?**

We agree that financial statements of a public sector entity provide a measure of the entity's service capacity and changes in it during the accounting period.

**Question 7: Do you agree with the removal of the net debt indicator from Objective 2?**

We agree with the removal of the net debt indicator from Objective 2. While the net debt indicator is useful for some, we believe many financial statement users better understand a total assets versus total liabilities presentation. This is the presentation format they are accustomed to from the private and/or public company sectors.

**Question 8: Do you agree with the removal of the requirement to present the change in net debt from Objective 3?**

We agree with the removal of the requirement to present the change in net debt from Objective 3. We believe many financial statement users derive minimal benefit from the statement of changes in net debt, as the key information is also available from the statement of operations and the statement of cash flows.

**Question 9: Do you agree with the new proposed Objective 4?**

While we agree that presenting budget information on the financial statements can be useful to financial statement users, some entities may not prepare a formal budget. An entity's budgeting practices are a governance/operational matter. Therefore, we believe presenting budget information

should be optional. If a formal budget is not prepared, or is prepared but not presented, this fact should be disclosed in the financial statements.

Please refer to our detailed comments on the presentation of a budget in Question #10 and #11 of our response letter to the *Statement of Principles – A Revised Reporting Model for the Canadian Public Sector*.

**Question 10: Do you agree with the new proposed Objective 5?**

We agree with the new proposed Objective 5.

**Question 11: Do you agree with the new proposed Objective 6?**

We agree with the new proposed Objective 6.

**Question 12: Do you agree with relevance, faithful representation, verifiability, comparability, understandability and timeliness as the qualitative characteristics of information reported in financial statements?**

We agree with relevance, faithful representation, verifiability, comparability, understandability and timeliness as the qualitative characteristics of information reported in financial statements.

**Question 13: Do you agree with the considerations (benefit versus cost, materiality and prudence) to take into account in striving to achieve a balance among the qualitative characteristics in providing information in financial statements?**

We agree with the considerations of benefit versus cost, materiality and prudence in providing information in financial statements. However, the framework should highlight that if an accounting treatment or disclosure is specifically required in a standard, materiality is the key consideration. When specific requirements exist, public sector entities must comply with those requirements except when the omission or misstatement of the financial information would not materially influence or alter a financial statement user's decision. Public sector entities who choose not to apply a standard's requirement on the basis of benefit versus cost would not be in compliance with the public sector accounting standards. The consideration of benefit versus cost is a key factor in deciding upon the inclusion of additional information in the financial statements above that required by a specific public sector accounting standard.

**Question 14: Do you agree with the asset definition as presented in paragraph 8.21?**

We agree with the asset definition as presented in paragraph 8.21.

**Question 15: Do you agree with the liability definition as presented in paragraph 8.27?**

We agree with the liability definition as presented in paragraph 8.27.

**Question 16: Do you agree with the revenue definition as presented in paragraph 8.33?**

We agree with the revenue definition as presented in paragraph 8.33.

**Question 17: Do you agree with the expense definition as presented in paragraph 8.35?**

We agree with the expense definition as presented in paragraph 8.35.

**Question 18: Do you agree with the general recognition criteria?**

We agree with the general recognition criteria.

**Question 19: Do you agree with the derecognition concept?**

We agree with the derecognition concept.

**Question 20: Do you agree that the exclusions from recognition should be removed from the conceptual framework and be moved to the asset standard, ASSETS, Section PS 3210?**

We agree that the exclusions from recognition should be removed from the conceptual framework and be moved to the asset standard, ASSETS, Section PS 3210. This represents specific guidance that is not objective or conceptual based.

**Question 21: Do you agree with the presentation definition?**

We agree with the presentation definition, but caution that in some cases the requirement of presentation on the face of the statements versus disclosure in the notes may not be clear. The individual standard level should clarify whether presentation on the face of the statements is required or if disclosure in the financial statement notes is an acceptable alternative.

**Question 22: Do you agree with the presentation objective?**

We agree with the presentation objective.

**Question 23: Do you agree with the definition of “government”?**

The definition of government, as presented, appears to only define how a government is established, but not what a government does. We are concerned that readers could narrowly interpret the definition to be focused on the specific laws/act under which an entity is legally established. The definition should be expanded to explain the role and responsibilities of government (e.g., the political discretion and control exercised over the actions of members and citizens of a community or region). The definition should clarify that a government, through its constitutional or delegated authority, may further delegate powers and responsibilities to other entities established to govern.

For example, the definition references Indigenous governments and we are concerned that the definition could be misinterpreted when considering Tribal Councils or similar organizations. In many cases, multiple First Nations will establish an entity, over which no party has control nor shared control, that may be incorporated under a Provincial Society Act. In some cases, the entity is established to undertake a non-profit-organization purpose and would currently be applying Part III of the CPA Canada Handbook – Accounting. In other cases, the First Nations have delegated governance powers and responsibilities to the entity, such that services are provided to members of each participating First Nation on a larger regional basis, and the entity would be applying the Public Sector Accounting Handbook. We fear that a narrow interpretation of the definition could result in such entities that are not controlled by, nor under the shared control of, a government, being inadvertently excluded from reporting under the Public Sector Accounting Handbook.

**Question 24: Are there additional matters requiring PSAB's consideration in finalizing a revised conceptual framework for the Canadian public sector?**

We do not have any additional comments.

We would be pleased to offer our assistance to the PSAB in further exploring issues raised in our response or in finding alternative solutions to meet financial statement users' needs.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed business in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous communities, medical and legal professionals, not-for-profit organizations, municipalities and government entities. In addition, our client base includes a sizeable contingent of publicly traded companies.

Yours truly,

**MNP LLP**

*Jody MacKenzie*

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Director, Assurance Professional Standards